

Reid Hospital and Health Care Services, Inc.

Accountants' Report and Consolidated Financial Statements

December 31, 2011 and 2010

Reid Hospital and Health Care Services, Inc.

December 31, 2011 and 2010

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Independent Accountants' Report on Consolidated Financial Statements and Other Information

Board of Directors
Reid Hospital and Health Care Services, Inc.
Richmond, Indiana

We have audited the accompanying consolidated balance sheets of Reid Hospital and Health Care Services, Inc. (Hospital) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reid Hospital and Health Care Services, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, in 2011, the Hospital changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for uncollectible accounts in accordance with Accounting Standards Update 2011-07.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

April 17, 2012

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 20,353,621	\$ 12,416,732
Assets limited as to use - current	3,060,000	2,955,000
Patient accounts receivable, net of allowance; 2011 - \$23,800,000, 2010 - \$21,800,000	47,042,289	48,289,942
Supplies	2,748,256	2,597,378
Prepaid expenses and other	6,952,981	6,260,530
Total current assets	<u>80,157,147</u>	<u>72,519,582</u>
Investments Limited As To Use		
Internally designated	160,068,849	167,170,600
Internally designated - alternative investments carried at fair value	11,812,936	24,956,874
Held by trustee	8,123,192	8,285,842
	<u>180,004,977</u>	<u>200,413,316</u>
Less amounts required to meet current obligations	3,060,000	2,955,000
	<u>176,944,977</u>	<u>197,458,316</u>
Property and Equipment, at cost	448,128,042	430,716,804
Less accumulated depreciation	144,936,224	112,790,286
	<u>303,191,818</u>	<u>317,926,518</u>
Other Assets		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,971,728	21,295,562
Deferred financing costs	6,386,814	6,612,798
Other	1,925,041	1,970,198
	<u>29,283,583</u>	<u>29,878,558</u>
Total assets	<u>\$ 589,577,525</u>	<u>\$ 617,782,974</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Balance Sheets (Continued)
December 31, 2011 and 2010

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Accounts payable and accrued expenses	\$ 12,932,861	\$ 17,545,089
Salaries, wages and related liabilities	10,905,067	10,229,098
Estimated amounts due to third-party payers	4,808,995	609,915
Current maturities of long-term debt	<u>3,060,000</u>	<u>2,955,000</u>
Total current liabilities	31,706,923	31,339,102
Long-Term Debt	176,710,000	185,430,000
Interest Rate Swap Agreement Liability	23,891,128	11,446,870
Pension Plan and Postretirement Benefits	<u>22,134,144</u>	<u>7,305,772</u>
Total liabilities	<u>254,442,195</u>	<u>235,521,744</u>
Net Assets		
Unrestricted		
Reid Hospital and Health Care Services, Inc.	312,058,018	358,975,188
Noncontrolling interest	<u>2,105,584</u>	<u>1,990,480</u>
Total unrestricted net assets	314,163,602	360,965,668
Temporarily restricted	20,811,738	21,135,572
Permanently restricted	<u>159,990</u>	<u>159,990</u>
Total net assets	<u>335,135,330</u>	<u>382,261,230</u>
Total liabilities and net assets	<u><u>\$ 589,577,525</u></u>	<u><u>\$ 617,782,974</u></u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 315,009,988	\$ 287,668,432
Provision for uncollectible accounts	<u>(27,365,168)</u>	<u>(28,600,758)</u>
Net patient service revenue less provision for uncollectible accounts	287,644,820	259,067,674
Other	6,494,337	6,211,144
Net assets released from restrictions used for operations	<u>576,426</u>	<u>423,628</u>
Total unrestricted revenues, gains and other support	<u>294,715,583</u>	<u>265,702,446</u>
Expenses and Losses		
Salaries, wages and benefits	153,433,846	138,058,726
Purchased services and professional fees	19,494,610	17,941,092
Supplies and other	86,796,325	88,438,164
Depreciation and amortization	34,463,045	32,678,620
Interest and amortization of financing costs	11,624,997	10,676,348
Loss on disposal of property and equipment	<u>511,549</u>	<u>302,026</u>
Total expenses and losses	<u>306,324,372</u>	<u>288,094,976</u>
Operating Loss	<u>(11,608,789)</u>	<u>(22,392,530)</u>
Other Income (Expense)		
Investment return	7,451,935	4,633,654
Unrealized gain (loss) on trading securities	(10,124,591)	9,159,611
Amortization of 2005 interest rate swap agreement	<u>(195,530)</u>	<u>(195,530)</u>
Total other income (expense)	<u>(2,868,186)</u>	<u>13,597,735</u>
Deficiency of Revenues Over Expenses	<u>(14,476,975)</u>	<u>(8,794,795)</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Other Changes in Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (14,476,975)	\$ (8,794,795)
Investment return - change in unrealized gains and losses on other-than-trading securities	(5,330,268)	5,889,441
Change in fair value of interest rate swap agreement	(12,444,258)	(3,418,248)
Amortization of 2005 interest rate swap agreement	195,530	195,530
Net assets released from restriction used for purchase of property and equipment	221,270	-
Net gain (loss) arising during the period related to defined- benefit plans	(12,956,722)	7,983,766
Distributions	(2,702,030)	(1,774,723)
Other	691,387	333,789
Increase (decrease) in unrestricted net assets	<u>(46,802,066)</u>	<u>414,760</u>
Temporarily Restricted Net Assets		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	473,862	2,844,572
Net assets released from restriction	<u>(797,696)</u>	<u>(423,628)</u>
Increase (decrease) in temporarily restricted net assets	<u>(323,834)</u>	<u>2,420,944</u>
Change in Net Assets	(47,125,900)	2,835,704
Net Assets, Beginning of Year	<u>382,261,230</u>	<u>379,425,526</u>
Net Assets, End of Year	<u><u>\$ 335,135,330</u></u>	<u><u>\$ 382,261,230</u></u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ (47,125,900)	\$ 2,835,704
Change in net assets attributable to noncontrolling interest	(115,104)	(584,099)
Change in net assets attributable to Reid Hospital and Health Care Services, Inc.	(47,241,004)	2,251,605
Items not requiring (providing) cash		
Loss on sale of property and equipment	511,549	302,026
Depreciation and amortization	34,463,045	32,678,620
Provision for uncollectible accounts	27,365,168	28,612,368
Unrealized (gain) loss on investments	15,454,859	(14,009,815)
Realized gain on investments	(5,291,675)	(2,856,465)
Change in fair value of interest rate swap agreement	12,444,258	3,418,248
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	323,834	(2,420,944)
Change in pension obligations	14,828,372	(8,005,548)
Changes in		
Patient accounts receivable	(26,117,515)	(42,364,383)
Estimated amounts due from and to third-party payers	4,199,080	379,934
Accounts payable and accrued expenses	(4,612,228)	743,761
Salaries, wages and related liabilities	675,969	1,089,160
Other current assets and liabilities	(920,247)	(1,824,919)
Noncontrolling interest in net income of equity investees	115,104	584,099
Net cash provided by (used in) operating activities	<u>26,198,569</u>	<u>(1,422,253)</u>
Investing Activities		
Purchase of investments	(77,812,358)	(30,099,606)
Proceeds from disposition of investments	88,057,513	46,887,185
Purchase of property and equipment	(19,913,384)	(13,174,603)
Proceeds from sale of property and equipment	21,549	-
Net cash provided by (used in) investing activities	<u>(9,646,680)</u>	<u>3,612,976</u>
Financing Activities		
Principal payments on long-term debt	(2,955,000)	(2,855,000)
Redemptions of subordinated revenue bonds	(5,660,000)	-
Net cash used in financing activities	<u>(8,615,000)</u>	<u>(2,855,000)</u>
Increase (Decrease) in Cash and Cash Equivalents	7,936,889	(664,277)
Cash and Cash Equivalents, Beginning of Year	<u>12,416,732</u>	<u>13,081,009</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,353,621</u>	<u>\$ 12,416,732</u>
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 10,278,204	\$ 9,502,557
Property and equipment purchases in accounts payable	-	6,939,899

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Reid Hospital and Health Care Services, Inc. (Hospital), located in Richmond, Indiana, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital provides short-term acute inpatient, outpatient and emergency care to residents of Wayne county and surrounding counties. Admitting physicians are primarily practitioners in the local area.

The Hospital owns 58% of Reid MOB, LLC (Reid MOB). Prior to 2011, the Hospital owned 47% of Reid MOB, but maintained control of the Board of Managers and also maintained certain reserve powers, resulting in control of Reid MOB. The purpose of Reid MOB is to own, operate and serve as landlord for a medical office building and outpatient care center located on the new campus of Reid Hospital and Health Care Services, Inc. During 2007, the medical office building and outpatient care center were completed and placed in service.

The Hospital owns 55% and holds a controlling interest in an ambulatory surgery center, Reid Outpatient Surgery and Endoscopy, LLC (ROSE).

The Hospital owns 100% of Reid Physician Associates, Inc. (RPA) and Reid Anesthesia, LLC (RA, LLC), which are not-for-profit corporations as described in Section 501(c)(3) of the Code. As such, RPA and RA, LLC are exempt from income taxes on related income pursuant to Section 501(a) of the Code. RPA was formed in 2008 and provides physician services. RA, LLC was formed in 2009 and provides anesthesia and management services. Reid MOB, ROSE, RPA and RA, LLC are included in the accompanying consolidated financial statements.

The Hospital holds a 50% equity ownership interest in Reid-ANC Home Care Services, LLC, which is accounted for under the equity method.

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, Reid MOB, ROSE, RPA and RA, LLC. All material intercompany accounts and transactions have been eliminated in consolidation. Investments in organizations in which the Hospital's ownership percentage is 50% or less are accounted for under the equity method and are included with other assets on the consolidated balance sheets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Noncontrolling Interest

Noncontrolling interest represents the following amounts not owned by the Hospital - a 42% and 53% interest in Reid MOB at December 31, 2011 and 2010, respectively, and a 45% interest in ROSE at December 31, 2011 and 2010.

	Total	Controlling Interest	Noncontrolling Interest
Balance January 1, 2010	\$ 360,550,908	\$ 359,144,527	\$ 1,406,381
Excess (deficiency) of revenues over expenses	(8,794,795)	(10,819,828)	2,025,033
Investment return - change in unrealized gains and losses on other-than-trading securities	5,889,441	5,889,441	-
Change in fair value of interest rate swap agreement	(3,418,248)	(3,418,248)	-
Amortization of 2005 interest rate swap agreement	195,530	195,530	-
Net gain arising during the period related to defined-benefit plan	7,983,766	7,983,766	-
Distributions to noncontrolling interest	(1,774,723)	-	(1,774,723)
Other	333,789	-	333,789
Increase (decrease) in unrestricted net assets	<u>414,760</u>	<u>(169,339)</u>	<u>584,099</u>
Balance December 31, 2010	360,965,668	358,975,188	1,990,480
Excess (deficiency) of revenues over expenses	(14,476,975)	(17,158,978)	2,682,003
Investment return - change in unrealized gains and losses on other-than-trading securities	(5,330,268)	(5,330,268)	-
Change in fair value of interest rate swap agreement	(12,444,258)	(12,444,258)	-
Amortization of 2005 interest rate swap agreement	195,530	195,530	-
Net assets released from restriction used for purchase of property and equipment	221,270	221,270	-
Net loss arising during the period related to defined-benefit plans	(12,956,722)	(12,956,722)	-
Distributions to noncontrolling interest	(2,702,030)	-	(2,702,030)
Other	691,387	556,256	135,131
Increase (decrease) in unrestricted net assets	<u>(46,802,066)</u>	<u>(46,917,170)</u>	<u>115,104</u>
Balance December 31, 2011	<u>\$ 314,163,602</u>	<u>\$ 312,058,018</u>	<u>\$ 2,105,584</u>

The change in temporarily restricted and permanently restricted net assets related only to the controlling interest.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposits.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2011, the Hospital's cash accounts exceeded federally insured limits by approximately \$20,200,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Certain investments are reported on the equity method of accounting. Other investments include investments in limited partnerships and are valued on the income tax basis of accounting, which approximates the equity method of accounting. The fair value for these investments is not readily determinable. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include assets held by trustees and assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Change in Accounting Principle

In 2011, the Hospital changed its method of presentation and disclosure of patient service revenue, provision for bad debts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are the reclassification of the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and the enhancement of disclosures around the Hospital's policies related to uncollectible accounts. The change had no effect on prior year change in net assets.

Total expenses and losses were previously reported in 2010 as \$316,695,734, and total unrestricted revenues, gains and other support were previously reported as \$294,303,204. Both 2010 previously reported values were reduced by the provision for uncollectible accounts of \$28,600,758.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients increased from 94% of self-pay accounts receivable at December 31, 2010, to 98% of self-pay accounts receivable at December 31, 2011. The increase was a result of negative trends experienced in the collection of amounts from self-pay patients in 2011.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest capitalized and incurred each year was:

	2011	2010
Interest costs capitalized	\$ 366,000	\$ 318,000
Interest costs charged to expense	<u>10,508,052</u>	<u>9,487,991</u>
Total interest incurred	<u><u>\$ 10,874,052</u></u>	<u><u>\$ 9,805,991</u></u>

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2011 and 2010.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Reid Hospital and Health Care Services Foundation, Inc. (Foundation) and the Hospital are financially interrelated organizations. The Foundation seeks private support for, and holds net assets on behalf of, the Hospital. The Hospital accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the Interest.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payers which provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$16,728,880 and \$20,042,419 for 2011 and 2010, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$7,848,909 and \$9,403,566 for 2011 and 2010, respectively.

The Hospital also provides unreimbursed services to the community, which include free or low cost health screenings, educational programs and information and financial support to, and meeting space for, various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at governmentally established rates, which are substantially lower than the Hospital's standard rates and are considered part of the Hospital's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling and the application to the Medicare and Medicaid programs for health service coverage. The costs of these programs are included in operating expenses. During 2010, the Hospital changed its charity policy to allow more patients to qualify for the Hospital's charitable programs.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Estimated Malpractice Costs

An annual estimated provision is accrued for medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of the effective portion of interest rate swap agreements, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

The Hospital and RPA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital and its controlled subsidiaries file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital and its controlled subsidiaries are no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Reclassifications

Certain reclassification have been made to the 2010 consolidated financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the consolidated financial statements were available to be issued.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the consolidated statement of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient acute care services and substantially all outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The mix of net patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2011 and 2010 is:

	2011	2010
Medicare	\$ 129,619,065	\$ 120,015,765
Medicaid	12,097,992	6,955,058
Other third-party payers	140,948,084	128,311,747
Uninsured patients, including coinsurance and deductibles	32,344,847	32,385,862
	<u>\$ 315,009,988</u>	<u>\$ 287,668,432</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

In 2011, the Indiana General Assembly passed a law allowing the usage of a Provider Assessment Fee. The State of Indiana submitted certain Medicaid State Plan Amendments to the Centers for Medicare and Medicaid Services (CMS) to incorporate a Provider Assessment Fee, requesting retroactive approval to July 1, 2011. The purpose of the Provider Assessment Fee would increase Medicaid base fee for service and diagnosis related group payment rates to Indiana hospitals and reduce the level of Medicaid lump sum payments made under the existing Medicaid Supplemental Payment programs. Management does not believe the implementation of the proposed Provider Assessment Fee will have a material difference in Medicaid revenues or the consolidated financial statements, taken as a whole.

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2011 and 2010 is:

	2011	2010
Medicare	35%	39%
Medicaid	7%	5%
Other third-party payers	44%	44%
Uninsured patients, including coinsurance and deductibles	14%	12%
	<u>100%</u>	<u>100%</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	2011	2010
Internally designated by Board		
Trading		
Cash and cash equivalents	\$ 12,463,107	\$ 19,836,910
Non-U.S. equity securities	637,288	9,199,791
Domestic equity mutual funds	58,740,193	60,237,435
Non-U.S. equity mutual funds	7,013,638	11,131,263
Domestic fixed income mutual funds	43,970,247	29,116,086
Non-U.S. fixed income mutual funds	15,093,671	12,966,693
Other than trading		
Alternative investments - corporate hedge funds	24,556,855	42,284,591
Alternative investments - real estate hedge funds	9,406,786	7,354,705
	<u>\$ 171,881,785</u>	<u>\$ 192,127,474</u>
Held by trustee under indenture agreement		
Cash and cash equivalents	<u>\$ 8,123,192</u>	<u>\$ 8,285,842</u>

Total investment return is comprised of the following:

	2011	2010
Interest and dividend income	\$ 3,795,696	\$ 3,229,847
Realized gains on trading securities	3,656,239	2,443,044
Unrealized gains (losses) on trading securities	(10,124,591)	9,159,611
Realized and unrealized gains (losses) on other than trading securities	<u>(5,330,268)</u>	<u>4,850,204</u>
	<u>\$ (8,002,924)</u>	<u>\$ 19,682,706</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	2011	2010
Unrestricted net assets		
Investment return	\$ 7,451,935	\$ 4,633,654
Unrealized gain (loss) on trading securities, including reclassification	(10,124,591)	9,159,611
Change in unrealized gains and losses on other than trading securities	(5,330,268)	5,889,441
	<u>\$ (8,002,924)</u>	<u>\$ 19,682,706</u>

The Hospital classifies substantially all of its investments in debt and equity securities as trading. This classification requires the Hospital to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as nonoperating gains (losses) in the consolidated statements of operations and changes in unrestricted net assets.

Alternative Investments Carried at Fair Value

The fair value of alternative investments - corporate hedge funds has been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consist of the following:

December 31, 2011					
	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Corporate hedge funds	\$	11,812,937	\$ -	Quarterly - Yearly	60 - 95 days
December 31, 2010					
	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Corporate hedge funds	\$	24,956,874	\$ -	Quarterly - Yearly	60 - 95 days

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Alternative Investments Carried Under Equity Method

The six alternative investments reported on the equity method consist of various real estate and corporate hedge funds. These funds invest in other limited partnerships in equity and real estate sectors. One of the funds has an initial lock-up period of 1 year with a 70-day redemption notice period and no redemption fees. The remaining five funds have lock-up periods of the life of the investment. Outstanding commitments for these funds approximate \$1.6 million. The financial position and results of operations of the more significant investment positions of which Reid owns a portion of, are summarized below for the most recent period in which audited consolidated financial statements are available.

	December 31, 2010
Current assets	\$ 11,047,680
Noncurrent assets	<u>103,560,537</u>
	<u>\$ 114,608,217</u>
Liabilities	<u>\$ 6,191,806</u>
Equity	<u>\$ 108,416,411</u>
Investment return	<u>\$ 3,951,464</u>
Net income	<u>\$ 3,692,426</u>

Note 5: Interest in Net Assets of Reid Hospital and Health Services Foundation, Inc.

The Foundation was organized to support the activities of the Hospital in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation, with corresponding decreases or increases in the assets transferred, and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$20,971,728 and \$21,295,562 at December 31, 2011 and 2010, respectively.

Certain Hospital officers and board members also serve on the Foundation's board of directors.

Reid Hospital and Health Care Services, Inc.
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Note 6: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. The Hospital is a subscriber in a Vermont captive insurance company, Indiana Healthcare (previously named VHA Central), a reciprocal risk retention group. The Hospital's capital contribution is reported in other assets.

Reserves for professional liability claims were \$283,500 at December 31, 2011 and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. No reserves were established at December 31, 2010. The provision for losses related to professional liability risks is presented net of expected insurance recoveries in the consolidated statements of operations; there was no provision in 2011 and 2010. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through the policies described above. The amounts receivable under these insurance contracts comprised \$283,500 included in prepaid expenses and other at December 31, 2011.

In 2011, the Hospital adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. This ASU eliminates the practice of netting claim liabilities with expected related insurance recoveries for balance sheet presentation. Claim liabilities are determined without regard for recoveries and are presented gross. Expected recoveries are presented separately. ASU 2010-24 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital recorded approximately \$283,500 of additional current professional liability reserves and current excess insurance coverage receivables, which are included in its consolidated balance sheet as of December 31, 2011. There was no material impact to the Hospital's results of operations or cash flows for the year ended December 31, 2011, as a result of the adoption of this guidance.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 7: Long-Term Debt

	2011	2010
Hospital Revenue Bonds, Series 2005A	\$ 82,015,000	\$ 83,890,000
Hospital Revenue Bonds, Series 2009A	97,755,000	98,835,000
Subordinated Revenue Bonds, Series 2005	-	5,660,000
	<u>179,770,000</u>	<u>188,385,000</u>
Less current maturities	<u>3,060,000</u>	<u>2,955,000</u>
	<u>\$ 176,710,000</u>	<u>\$ 185,430,000</u>

In April 2005, the Hospital Authority of Richmond (Authority) obligated itself in a trust indenture with U.S. Bank National Association for the issuance of \$175,000,000 in bonds to construct and equip a new hospital facility, which opened in 2008. The Authority loaned the proceeds of the bond issue to the Hospital in an agreement dated April 1, 2005. The original 2005 bonds are insured through a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. The obligations are secured by the Hospital's revenues and substantially all of the Hospital's assets.

In connection with the bond issues, the Hospital entered into various agreements benefiting the respective bond stakeholders. Among other provisions, the Hospital has covenanted not to incur indebtedness secured by an encumbrance on, or mortgage of, its facilities except under certain circumstances.

Hospital Revenue Bonds 2005A Series, Variable Rate Demand Obligations

The Revenue Bonds Series 2005A of \$87,500,000 are structured as variable rate demand bonds, which are remarketed daily. In the event the bonds are not remarketed, the bond holder has the right to demand payment on the bonds. The Hospital entered into a liquidity facility in the form of a standby bond purchase agreement with JPMorgan Chase Bank, National Association, which provides up to \$87,500,000 of liquidity to benefit the tender agent. Drawings under the standby bond purchase agreement are due the earlier of (i) the original scheduled payment; (ii) the date on which the bonds are remarketed pursuant to the trust indenture; (iii) the date on which the standby bond purchase agreement is replaced by a substitute credit facility or (iv) the expiration of the standby bond purchase agreement, which is April 8, 2013.

The bonds are payable in amounts ranging from \$1,770,000 to \$3,990,000, including monthly interest, which was .58% at December 31, 2011.

Hospital Revenue Bonds Series 2009A

The Authority issued Revenue Bonds Series 2009A pursuant to a Trust Indenture dated as of March 1, 2009 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from, and secured exclusively by, payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital under a loan agreement dated March 1, 2009, between the Authority and the Corporation.

Reid Hospital and Health Care Services, Inc.

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Proceeds from the bond issue were to refund the Series 2005B and 2005C bonds and also to fund a debt service reserve fund.

The bonds are subject to mandatory sinking fund requirements and are required to maintain a debt service reserve fund with the Trustee. Amounts on deposit with the Trustee at December 31, 2011 totaled \$8,123,192.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2010 in amounts ranging from \$1,015,000 to \$7,940,000. Interest payments are due on January 1 and July 1, and rates vary from 3% to 7% at final maturity.

Subordinated Revenue Bonds Series 2005

In March 2005, the subordinated bonds were issued; proceeds were used to construct and equip a diagnostic medical imaging center. The bonds bear interest at a fixed rate of 11% with a balloon payment of \$5,660,000 due in 2025. The bonds are secured by pledged revenue of the diagnostic center and equipment.

The Hospital exercised its right through a Notice of Redemption and Prepayment of Loan to prepay the 2005 subordinated bonds on June 1, 2011.

Annual Maturities

Aggregate annual maturities and sinking fund requirements of bonds payable at December 31, 2011, are:

2012	\$ 3,060,000
2013	3,175,000
2014	3,245,000
2015	3,440,000
2016	3,590,000
Thereafter	<u>163,260,000</u>
	<u>\$ 179,770,000</u>

Interest expense for the years ended December 31, 2011 and 2010 was \$10,508,052 and \$9,487,991, respectively.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 8: Interest Rate Swap Agreement

Cash Flow Hedge

In March 2005, the Hospital entered into two interest rate swaps (the 2005 Swaps) for notional amounts totaling \$87,500,000. The 2005 Swaps are fixed rate payer swaps that terminate in January 2045 and prior to April 1, 2008, amortized in coordination with the 2005 B and C Series Bonds. Under this agreement, the Hospital pays a fixed rate of 3.702% and receives a floating rate equal to 63.10% + .25% of USD-LIBOR (.44% and .41% at December 31, 2011 and 2010, respectively). The original objective of the 2005 Swaps was to hedge the risk of overall changes in the variable interest payments on the 2005 Series B and C Bonds. The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$23,891,128 and \$11,446,870 at December 31, 2011 and 2010, respectively.

The 2005 Swaps qualified as an effective hedge through March 31, 2008, and changes in fair value of the 2005 Swaps were recorded as other changes in net assets through that date.

Beginning on April 1, 2008, the 2005 Swaps no longer qualified as an effective hedge due to volatility in the variable interest rate market. Changes in fair value of the 2005 Swaps since this date up to the date of re-election of the 2005 Swaps to the 2005A bond, as discussed below, have been recorded in other income (expense). The fair value of the agreement at March 31, 2008 of \$7,185,735 is being amortized from other changes in unrestricted net assets into other income (expense) over the remaining term of the 2005 A Series Bonds through January 2045. During each of the years ended 2011 and 2010, \$195,530 of the March 31, 2008 fair value was amortized from other changes in unrestricted net assets into other income (expense).

Beginning on April 1, 2009, the 2005 Swaps were re-designated to hedge the 2005A Series Bonds. The hedge qualified as an effective hedge, and all changes in the 2005 Swaps subsequent to the accounting election are reported in other changes in unrestricted net assets.

The table below presents certain information regarding the Hospital's interest rate swap agreement at December 31:

	2011	2010
Fair value of interest rate swap agreement	\$ (23,891,128)	\$ (11,446,870)
Balance sheet location of fair value amount	Interest Rate Swap Agreement Liability	Interest Rate Swap Agreement Liability
Loss recognized in unrestricted net assets (effective portion)	\$ (12,444,258)	\$ (3,418,248)
Gain reclassified from unrestricted net assets into excess revenues over expenses (effective portion)	\$ 195,530	\$ 195,530
Location of gain reclassified from unrestricted net assets into deficiency of revenues over expenses	Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 9: Property and Equipment

Property and equipment and related accumulated depreciation as of December 31 are as follows:

	2011	2010
Land and land improvements	\$ 42,311,860	\$ 41,206,017
Buildings and improvements	120,859,353	113,566,000
Building equipment	154,354,688	152,208,389
Moveable equipment	126,879,850	115,438,570
Construction in progress	3,722,291	8,297,828
	<u>448,128,042</u>	<u>430,716,804</u>
Accumulated depreciation	<u>(144,936,224)</u>	<u>(112,790,286)</u>
	<u>\$ 303,191,818</u>	<u>\$ 317,926,518</u>

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are restricted for the interest in net assets of the Foundation. Temporarily restricted net assets totaled \$20,811,738 and \$21,135,573 at December 31, 2011 and 2010, respectively. Permanently restricted net assets totaled \$159,990 at each year ended December 31, 2011 and 2010.

Net assets of \$797,696 and \$423,628 were released for use in operations for 2011 and 2010, respectively.

Note 11: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2011	2010
Health care services	\$ 274,596,655	\$ 261,809,231
General and administrative	<u>31,727,717</u>	<u>26,285,745</u>
	<u>\$ 306,324,372</u>	<u>\$ 288,094,976</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 12: Pension Plans

Defined-Contribution Plan

Effective April 1, 2008, the Hospital implemented a defined-contribution pension plan covering substantially all employees hired after April 1, 2008. Employees hired prior to April 1, 2008 who met the eligibility requirements participate in the defined-benefit plan. Substantially all employees are eligible to participate in the Hospital's 403b plan. The Board of Trustees annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$864,448 and \$604,632 for 2011 and 2010, respectively.

Defined-Benefit Plan

The Hospital has a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. The Hospital's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Hospital may determine to be appropriate from time to time. The Hospital expects to contribute approximately \$7,000,000 to the plan in 2012.

The defined-benefit pension plan was frozen to all new participants effective April 1, 2008. Effective December 31, 2011, management elected to freeze the plan to all participants. As a result of this freeze, participants will receive no additional credit for service or future wage adjustments. During 2011, as a result of an outsourcing agreement, approximately 145 participants were terminated from the Hospital and subsequently hired by the third-party processor. This termination led to additional benefit payments for terminated employees. Settlement costs in 2011 represent the recognition of net periodic benefit costs related to benefit payments made to the terminated employees.

The Hospital has a contributory defined-benefit postretirement health care plan covering all employees who meet the eligibility requirements. This plan was terminated effective January 1, 2012 with benefit coverage for various periods of time through September 30, 2012. The postretirement benefit obligation represents the remaining claims expected to be paid by the plan.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

The Hospital uses a December 31 measurement date for the plans. Information about the plan's funded status follows:

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Changes in projected benefit obligation				
Beginning balance	\$ 48,811,396	\$ 49,999,338	\$ 904,821	\$ 927,500
Service cost	3,121,370	3,878,770	-	80,120
Interest cost	3,097,040	3,309,065	-	59,966
Benefits paid	(13,107,829)	(3,104,658)	(30,487)	(79,534)
Actuarial loss	19,359,304	7,947,536	-	(83,231)
Effect of settlement/curtailment	(716,915)	(13,218,655)	(724,334)	-
Ending balance	<u>60,564,366</u>	<u>48,811,396</u>	<u>150,000</u>	<u>904,821</u>
Changes in fair value of assets				
Fair value at beginning of year	42,410,445	35,615,518	-	-
Actual return on plan assets	1,477,606	4,899,585	-	-
Employer contributions	7,800,000	5,000,000	30,487	79,534
Benefits paid	<u>(13,107,829)</u>	<u>(3,104,658)</u>	<u>(30,487)</u>	<u>(79,534)</u>
Ending balance	<u>38,580,222</u>	<u>42,410,445</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (21,984,144)</u>	<u>\$ (6,400,951)</u>	<u>\$ (150,000)</u>	<u>\$ (904,821)</u>

Liabilities recognized in the consolidated balance sheets:

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Noncurrent liabilities	<u>\$ (21,984,144)</u>	<u>\$ (6,400,951)</u>	<u>\$ (150,000)</u>	<u>\$ (904,821)</u>

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Net (gain) loss	\$ 30,782,454	\$ 17,081,255	\$ (681,424)	\$ 73,397
Transition obligation	<u>-</u>	<u>-</u>	<u>171,076</u>	<u>171,076</u>
	<u>\$ 30,782,454</u>	<u>\$ 17,081,255</u>	<u>\$ (510,348)</u>	<u>\$ 244,473</u>

The accumulated benefit obligation for the defined-benefit pension plan was \$60,564,366 and \$47,047,952 at December 31, 2011 and 2010, respectively.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

	2011	2010
Projected benefit obligation	\$ 60,564,366	\$ 48,811,396
Accumulated benefit obligation	60,564,366	47,047,952
Fair value of plan assets	38,580,222	42,410,445

The following table shows the components of net periodic benefit costs:

	Pension Benefits 2011	Pension Benefits 2010	Postretirement Benefits 2011	Postretirement Benefits 2010
Service cost	\$ 3,121,370	\$ 3,878,770	\$ -	\$ 80,120
Interest cost	3,097,040	3,309,065	-	59,966
Expected return on assets	(4,027,124)	(3,612,543)	-	-
Amortization of transition obligation	-	-	-	19,008
Amortization of prior service cost	-	27,424	-	-
Recognition of net loss	938,470	1,433,806	-	4,259
Net period benefit cost	<u>3,129,756</u>	<u>5,036,522</u>	<u>-</u>	<u>163,353</u>
Settlement Cost	<u>6,552,238</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net benefit cost	<u><u>\$ 9,681,994</u></u>	<u><u>\$ 5,036,522</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 163,353</u></u>

Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets at December 31, 2011:

	Pension Benefits	Postretirement Benefits
Gain recognized in current year	\$ (7,490,708)	\$ -
(Gain) loss incurred in current year	<u>21,191,907</u>	<u>(754,821)</u>
Other comprehensive (gain) loss in current year	<u><u>\$ 13,701,199</u></u>	<u><u>\$ (754,821)</u></u>

The estimated net loss for the defined-benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,902,001.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Significant assumptions include:

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.75%	6.50%	6.50%	6.50%
Rate of compensation increase	0.00%	3.00%	n/a	n/a
Health care trend rate - initial	n/a	n/a	8.50%	8.50%
Health care trend rate - ultimate	n/a	n/a	5.00%	5.00%
Years to ultimate	n/a	n/a	7	7
Weighted-average assumptions used to determine benefit costs:				
Discount rate	6.50%	6.75%	6.75%	6.75%
Expected return on plan assets	9.00%	9.00%	n/a	n/a
Rate of compensation increase	3.00%	3.00%	n/a	n/a
Health care trend rate - initial	n/a	n/a	9.00%	9.00%
Health care trend rate - ultimate	n/a	n/a	5.00%	5.00%
Years to ultimate	n/a	n/a	6	6

The Hospital has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2011:

	Pension Benefits	Postretirement Benefits
2012	\$ 3,345,058	\$ 150,000
2013	4,972,756	-
2014	4,374,194	-
2015	6,920,187	-
2016	5,747,422	-
2017 - 2021	40,410,712	-

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

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Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2011 and 2010 are as follows:

	Pension Benefits	
	2011	2010
Equity securities	15.0 - 35.0%	52.5 - 62.5%
Debt securities	40.0 - 70.0%	17.5 - 27.5%
Other	15.0 - 25.0%	15.0 - 25.0%

Plan assets are re-balanced quarterly. At December 31, 2011 and 2010, plan assets by category are as follows:

	Pension Benefits	
	2011	2010
Equity securities	20%	53%
Debt securities	53%	40%
Other	27%	7%
	<u>100%</u>	<u>100%</u>

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds, equity securities and debt securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include certain alternative investments. As a practical expedient, the fair value of alternative investments without quoted market prices is determined using the net asset value (or its equivalent) provided by the fund providing the Plan can redeem its investment at the net asset value per share at December 31 or within a reasonable period of time. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The Plan does not have any Level 3 categories at December 31, 2011 or 2010.

Reid Hospital and Health Care Services, Inc.

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The fair values of the Hospital's pension plan assets at December 31, 2011 and 2010, by asset class, are as follows:

2011 Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 370,908	\$ 370,908	\$ -	\$ -
Domestic equity mutual funds	10,971,633	10,971,633	-	-
Non-U.S. equity mutual funds	2,670,132	2,670,132	-	-
Domestic fixed income mutual funds	19,313,198	19,313,198	-	-
Non-U.S. fixed income mutual funds	3,759,866	3,759,866	-	-
Alternative investments - hedge funds	1,494,485	-	1,494,485	-
	<u>\$ 38,580,222</u>	<u>\$ 37,085,737</u>	<u>\$ 1,494,485</u>	<u>\$ -</u>

2010 Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 735,480	\$ 735,480	\$ -	\$ -
Domestic equity mutual funds	17,224,310	17,224,310	-	-
Non-U.S. equity mutual funds	5,329,946	5,329,946	-	-
Domestic fixed income mutual funds	13,096,599	13,096,599	-	-
Non-U.S. fixed income mutual funds	3,960,188	3,960,188	-	-
Alternative investments - hedge funds	2,063,922	-	2,063,922	-
	<u>\$ 42,410,445</u>	<u>\$ 40,346,523</u>	<u>\$ 2,063,922</u>	<u>\$ -</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

Note 13: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Money Market Funds

Where quoted market prices are available in an active market, money market mutual funds are classified within Level 1 of the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities, equity mutual funds and fixed income mutual funds. Level 2 securities include corporate hedge funds.

As a practical expedient, the fair value of alternative investments without quoted market prices is determined using the net asset value (or its equivalent) provided by the fund providing the Hospital can redeem its investment at the net asset value per share at December 31 or within a reasonable period of time.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

		2011		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 20,586,299	\$ 20,586,299	\$ -	\$ -
Non-U.S. equity securities	637,288	637,288	-	-
Domestic equity mutual funds	58,740,193	58,740,193	-	-
Non-U.S. equity mutual funds	7,013,638	7,013,638	-	-
Domestic fixed income mutual funds	43,970,247	43,970,247	-	-
Non-U.S. fixed income mutual funds	15,093,671	15,093,671	-	-
Alternative investments - corporate hedge funds	11,812,937	-	11,812,937	-
	<u>157,854,273</u>	<u>146,041,336</u>	<u>11,812,937</u>	<u>-</u>
Cash and cash equivalents - money market funds	<u>20,220,513</u>	<u>20,220,513</u>	<u>-</u>	<u>-</u>
	<u>\$ 178,074,786</u>	<u>\$ 166,261,849</u>	<u>\$ 11,812,937</u>	<u>\$ -</u>
Interest rate swap agreement liability	<u>\$ 23,891,128</u>	<u>\$ -</u>	<u>\$ 23,891,128</u>	<u>\$ -</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2011 and 2010

		2010 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Investments				
Money market funds	\$ 28,122,752	\$ 28,122,752	\$ -	\$ -
Non-U.S. equity securities	9,199,791	9,199,791	-	-
Domestic equity mutual funds	60,237,165	60,237,165	-	-
Non-U.S. equity mutual funds	11,131,263	11,131,263	-	-
Domestic fixed income mutual funds	29,116,086	29,116,086	-	-
Non-U.S. fixed income mutual funds	12,966,963	12,966,963	-	-
Alternative investments - corporate hedge funds	24,956,875	-	24,956,875	-
	<u>175,730,895</u>	<u>150,774,020</u>	<u>24,956,875</u>	<u>-</u>
Cash and cash equivalents - money market funds	<u>13,215,031</u>	<u>13,215,031</u>	<u>-</u>	<u>-</u>
	<u>\$ 188,945,926</u>	<u>\$ 163,989,051</u>	<u>\$ 24,956,875</u>	<u>\$ -</u>
Interest rate swap agreement liability	<u>\$ 11,446,870</u>	<u>\$ -</u>	<u>\$ 11,446,870</u>	<u>\$ -</u>

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement.

Notes Payable and Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

The following table presents estimated fair values of the Hospital's financial instruments not previously disclosed at December 31, 2011 and 2010.

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 40,939,920	\$ 40,939,920	\$ 40,539,484	\$ 40,539,484
Debt securities	43,970,247	43,970,247	29,116,086	29,116,086
Equity securities	93,341,122	93,341,122	119,076,522	119,076,522
Interest in net assets of Foundation	20,971,728	20,971,728	21,295,562	21,295,562
Financial liabilities				
Long-term debt	179,770,000	213,085,325	188,385,000	191,223,120
Interest rate swap agreement	23,891,128	23,891,128	11,446,870	11,446,870

Note 14: The Fair Value Option

The Hospital has elected to measure certain alternative investments at fair value because it more accurately reflects its financial position. Included in the accompanying consolidated balance sheets are nine alternative investments of which three are reported at fair value of \$11,812,937 and \$24,956,874 at December 31, 2011 and 2010, respectively; the other six are reported on the equity method at \$22,150,702 and \$24,682,419 at December 31, 2011 and 2010, respectively. Unrealized gains (losses) on investments elected to be measured at fair value were \$(710,416) and \$810,227 at December 31, 2011 and 2010, respectively. These gains and losses are reported on the consolidated statements of operations and changes in net assets. The fair value option was not elected for all of the alternative investments due to a portion being reported on the equity method and not having readily determinable fair value.

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self Insurance

The Hospital has elected to self-insure certain costs related to employee health insurance programs. In connection with the self-insurance program, the Hospital purchases reinsurance to protect them from catastrophic losses per occurrence. Costs resulting from noninsured losses are charged to income when incurred.

Pension and Other Postretirement Benefit Obligations

The Hospital has a noncontributory defined-benefit pension plan and a contributory postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. As described in Note 13, the noncontributory defined-benefit pension plan was frozen as of December 31, 2011. The contributory postretirement health care plan was terminated January 1, 2012. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Current Economic Conditions

The current protracted economic decline continues to presents hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values (including defined-benefit pension plan investments) and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Other Information

Reid Hospital and Health Care Services, Inc.

Consolidating Schedule - Balance Sheet Information

December 31, 2011

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 18,577,096	\$ 250,881	\$ 1,110,385	\$ (241,606)	\$ 656,865	\$ -	\$ 20,353,621
Assets limited as to use - current	3,060,000	-	-	-	-	-	3,060,000
Patient accounts receivable, net of allowance; 2011 - \$23,800,000	42,890,292	-	-	4,151,997	-	-	47,042,289
Supplies	2,748,256	-	-	-	-	-	2,748,256
Prepaid expenses and other	83,245,580	46,102	870,991	2,273,992	1,357,932	(80,841,616)	6,952,981
Total current assets	150,521,224	296,983	1,981,376	6,184,383	2,014,797	(80,841,616)	80,157,147
Assets Limited As To Use							
Internally designated	160,068,849	-	-	-	-	-	160,068,849
Internally designated - fair value option	11,812,936	-	-	-	-	-	11,812,936
Held by trustee	8,123,192	-	-	-	-	-	8,123,192
	180,004,977	-	-	-	-	-	180,004,977
Less amounts required to meet current obligations	3,060,000	-	-	-	-	-	3,060,000
	176,944,977	-	-	-	-	-	176,944,977
Property and Equipment, at cost	404,744,875	30,019,100	8,120,418	7,024,316	-	(1,780,667)	448,128,042
Less accumulated depreciation	135,888,629	3,517,340	4,492,396	2,462,391	-	(1,424,532)	144,936,224
	268,856,246	26,501,760	3,628,022	4,561,925	-	(356,135)	303,191,818
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,971,728	-	-	-	-	-	20,971,728
Deferred financing costs	6,386,814	-	-	-	-	-	6,386,814
Other	5,136,589	-	-	-	-	(3,211,548)	1,925,041
	32,495,131	-	-	-	-	(3,211,548)	29,283,583
Total assets	\$ 628,817,578	\$ 26,798,743	\$ 5,609,398	\$ 10,746,308	\$ 2,014,797	\$ (84,409,299)	\$ 589,577,525

Liabilities and Net Assets

Current Liabilities							
Accounts payable and accrued expenses	\$ 12,933,081	\$ 224,061	\$ 860,316	\$ 52,530,943	\$ 591,956	(54,207,496)	\$ 12,932,861
Salaries, wages and related liabilities	8,613,942	-	-	2,291,125	-	-	10,905,067
Estimated amounts due to third-party payers	4,808,995	-	-	-	-	-	4,808,995
Current maturities of long-term debt	3,060,000	-	-	-	-	-	3,060,000
Total current liabilities	29,416,018	224,061	860,316	54,822,068	591,956	(54,207,496)	31,706,923
Long-Term Debt	176,710,000	26,634,122	-	-	-	(26,634,122)	176,710,000
Interest Rate Swap Agreement Liability	23,891,128	-	-	-	-	-	23,891,128
Pension Plan and Postretirement Benefits	22,134,144	-	-	-	-	-	22,134,144
Total liabilities	252,151,290	26,858,183	860,316	54,822,068	591,956	(80,841,618)	254,442,195
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	355,694,560	(59,440)	4,749,082	(44,075,760)	1,422,841	(5,673,265)	312,058,018
Noncontrolling interest	-	-	-	-	-	2,105,584	2,105,584
Total unrestricted net assets	355,694,560	(59,440)	4,749,082	(44,075,760)	1,422,841	(3,567,681)	314,163,602
Temporarily restricted	20,811,738	-	-	-	-	-	20,811,738
Permanently restricted	159,990	-	-	-	-	-	159,990
Total net assets	376,666,288	(59,440)	4,749,082	(44,075,760)	1,422,841	(3,567,681)	335,135,330
Total liabilities and net assets	\$ 628,817,578	\$ 26,798,743	\$ 5,609,398	\$ 10,746,308	\$ 2,014,797	\$ (84,409,299)	\$ 589,577,525

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
December 31, 2011

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 288,641,379	\$ -	\$ -	\$ 26,368,609	\$ -	\$ -	\$ 315,009,988
Provision for uncollectible accounts	(24,040,460)	-	-	(3,324,708)	-	-	(27,365,168)
Net patient service revenue less provision for uncollectible accounts	264,600,919	-	-	23,043,901	-	-	287,644,820
Other	7,600,837	5,023,663	20,597,085	198,989	5,997,767	(32,924,004)	6,494,337
Net assets released from restrictions used for operations	576,426	-	-	-	-	-	576,426
Total unrestricted revenues, gains and other support	272,778,182	5,023,663	20,597,085	23,242,890	5,997,767	(32,924,004)	294,715,583
Expenses and Losses							
Salaries, wages and benefits	112,031,219	71,506	8,814,395	36,793,568	22,349	(4,299,191)	153,433,846
Purchased services and professional fees	20,717,482	16,218	250,275	118,034	5,074,285	(6,681,684)	19,494,610
Supplies and other	92,436,004	1,945,658	5,392,201	8,964,250	1,340	(21,943,128)	86,796,325
Depreciation and amortization	32,242,320	780,631	664,003	1,132,226	-	(356,135)	34,463,045
Interest and amortization of financing costs	11,624,997	1,817,904	-	-	-	(1,817,904)	11,624,997
(Gain) loss on disposal of property and equipment	521,479	-	(9,680)	(250)	-	-	511,549
Total expenses and losses	269,573,501	4,631,917	15,111,194	47,007,828	5,097,974	(35,098,042)	306,324,372
Operating Income (Loss)	3,204,681	391,746	5,485,891	(23,764,938)	899,793	2,174,038	(11,608,789)
Other Income (Expense)							
Investment return	12,966,617	6,341	5,256	-	-	(5,526,279)	7,451,935
Unrealized gain on trading securities	(10,124,591)	-	-	-	-	-	(10,124,591)
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(195,530)	-	-	-	-	-	(195,530)
Total other income (expense)	2,646,496	6,341	5,256	-	-	(5,526,279)	(2,868,186)
Excess (Deficiency) of Revenues Over Expenses	5,851,177	398,087	5,491,147	(23,764,938)	899,793	(3,352,241)	(14,476,975)
Other Changes in Unrestricted Net Assets							
Investment return - change in unrealized gains and losses on other-than-trading securities	(5,330,268)	-	-	-	-	-	(5,330,268)
Change in fair value of interest rate swap agreement	(12,444,258)	-	-	-	-	-	(12,444,258)
Amortization of 2005 interest rate swap agreement	195,530	-	-	-	-	-	195,530
Net assets released from restriction used for purchase of property and equipment	221,270	-	-	-	-	-	221,270
Net loss arising during the period related to defined-benefit plans	(12,956,722)	-	-	-	-	-	(12,956,722)
Distributions	-	(699,989)	(5,710,416)	-	-	3,708,375	(2,702,030)
Other	-	-	-	-	-	691,387	691,387
Increase (decrease) in unrestricted net assets	(24,463,271)	(301,902)	(219,269)	(23,764,938)	899,793	1,047,521	(46,802,066)
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	473,862	-	-	-	-	-	473,862
Net assets released from restriction	(797,696)	-	-	-	-	-	(797,696)
Increase in temporarily restricted net assets	(323,834)	-	-	-	-	-	(323,834)
Change in Net Assets	(24,787,105)	(301,902)	(219,269)	(23,764,938)	899,793	1,047,521	(47,125,900)
Net Assets, Beginning of Year	401,453,393	242,462	4,968,351	(20,310,822)	523,048	(4,615,202)	382,261,230
Net Assets, End of Year	\$ 376,666,288	\$ (59,440)	\$ 4,749,082	\$ (44,075,760)	\$ 1,422,841	\$ (3,567,681)	\$ 335,135,330

Reid Hospital and Health Care Services, Inc.

Consolidating Schedule - Balance Sheet Information

December 31, 2010

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 11,329,367	\$ 376,521	\$ 756,654	\$ (148,745)	\$ 102,935	\$ -	\$ 12,416,732
Assets limited as to use - current	2,955,000	-	-	-	-	-	2,955,000
Patient accounts receivable, net of allowance; 2010 - \$21,800,000	44,538,324	-	-	3,751,618	-	-	48,289,942
Supplies	2,597,378	-	-	-	-	-	2,597,378
Prepaid expenses and other	58,582,775	17,382	766,292	1,764,083	717,588	(55,587,590)	6,260,530
Total current assets	120,002,844	393,903	1,522,946	5,366,956	820,523	(55,587,590)	72,519,582
Assets Limited As To Use							
Internally designated	167,170,600	-	-	-	-	-	167,170,600
Internally designated - fair value option	24,956,874	-	-	-	-	-	24,956,874
Held by trustee	8,285,842	-	-	-	-	-	8,285,842
	200,413,316	-	-	-	-	-	200,413,316
Less amount required to meet current obligations	2,955,000	-	-	-	-	-	2,955,000
	197,458,316	-	-	-	-	-	197,458,316
Property and Equipment, at cost	389,467,374	29,988,876	8,883,948	4,157,273	-	(1,780,667)	430,716,804
Less accumulated depreciation	104,948,515	2,707,737	4,930,218	1,272,215	-	(1,068,399)	112,790,286
	284,518,859	27,281,139	3,953,730	2,885,058	-	(712,268)	317,926,518
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	21,295,562	-	-	-	-	-	21,295,562
Deferred financing costs	6,612,798	-	-	-	-	-	6,612,798
Other	5,873,132	-	-	-	-	(3,902,934)	1,970,198
	33,781,492	-	-	-	-	(3,902,934)	29,878,558
Total assets	\$ 635,761,511	\$ 27,675,042	\$ 5,476,676	\$ 8,252,014	\$ 820,523	\$ (60,202,792)	\$ 617,782,974

Liabilities and Net Assets

Current Liabilities							
Accounts payable and accrued expenses	\$ 17,617,602	\$ 278,081	\$ 327,952	\$ 27,457,070	\$ 297,475	\$ (28,433,091)	\$ 17,545,089
Salaries, wages and related liabilities	8,942,959	-	180,373	1,105,766	-	-	10,229,098
Estimated amounts due to third-party payers	609,915	-	-	-	-	-	609,915
Current maturities of long-term debt	2,955,000	-	-	-	-	-	2,955,000
Total current liabilities	30,125,476	278,081	508,325	28,562,836	297,475	(28,433,091)	31,339,102
Long-Term Debt	185,430,000	27,154,499	-	-	-	(27,154,499)	185,430,000
Interest Rate Swap Agreement Liability	11,446,870	-	-	-	-	-	11,446,870
Pension Plan and Postretirement Benefits	7,305,772	-	-	-	-	-	7,305,772
Total liabilities	234,308,118	27,432,580	508,325	28,562,836	297,475	(55,587,590)	235,521,744
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	380,157,831	242,462	4,968,351	(20,310,822)	523,048	(6,605,682)	358,975,188
Noncontrolling interest	-	-	-	-	-	1,990,480	1,990,480
Total unrestricted net assets	380,157,831	242,462	4,968,351	(20,310,822)	523,048	(4,615,202)	360,965,668
Temporarily restricted	21,135,572	-	-	-	-	-	21,135,572
Permanently restricted	159,990	-	-	-	-	-	159,990
Total net assets	401,453,393	242,462	4,968,351	(20,310,822)	523,048	(4,615,202)	382,261,230
Total liabilities and net assets	\$ 635,761,511	\$ 27,675,042	\$ 5,476,676	\$ 8,252,014	\$ 820,523	\$ (60,202,792)	\$ 617,782,974

Reid Hospital and Health Care Services, Inc.

Consolidating Schedule - Statement of Operations and Changes in Net Assets Information

December 31, 2010

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 272,829,787	\$ -	\$ -	\$ 14,838,645	\$ -	\$ -	\$ 287,668,432
Provision for uncollectible accounts	(26,556,897)	-	-	(2,043,861)	-	-	(28,600,758)
Net patient service revenue less provision for uncollectible accounts	246,272,890	-	-	12,794,784	-	-	259,067,674
Other	7,016,298	5,221,831	19,319,992	76,645	5,518,205	(30,941,827)	6,211,144
Net assets released from restrictions used for operations	423,628	-	-	-	-	-	423,628
Total unrestricted revenues, gains and other support	253,712,816	5,221,831	19,319,992	12,871,429	5,518,205	(30,941,827)	265,702,446
Expenses and Losses							
Salaries, wages and benefits	114,198,607	76,883	9,082,758	18,894,169	317,691	(4,511,382)	138,058,726
Purchased services and professional fees	18,209,839	5,876	281,272	777,801	4,831,908	(6,165,604)	17,941,092
Supplies and other	93,302,695	2,231,586	5,142,422	8,026,252	50	(20,264,841)	88,438,164
Depreciation and amortization	30,874,208	751,273	669,985	739,287	-	(356,133)	32,678,620
Interest and amortization of financing costs	10,676,348	1,850,899	-	-	-	(1,850,899)	10,676,348
Loss on disposal of property and equipment	284,330	-	10,960	6,736	-	-	302,026
Total expenses and losses	267,546,027	4,916,517	15,187,397	28,444,245	5,149,649	(33,148,859)	288,094,976
Operating Income (Loss)	(13,833,211)	305,314	4,132,595	(15,572,816)	368,556	2,207,032	(22,392,530)
Other Income (Expense)							
Investment return	9,086,287	2,962	4,397	-	-	(4,459,992)	4,633,654
Unrealized gain on trading securities	9,159,611	-	-	-	-	-	9,159,611
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(195,530)	-	-	-	-	-	(195,530)
Total other income	18,050,368	2,962	4,397	-	-	(4,459,992)	13,597,735
Excess (Deficiency) of Revenues Over Expenses	4,217,157	308,276	4,136,992	(15,572,816)	368,556	(2,252,960)	(8,794,795)
Other Changes in Unrestricted Net Assets							
Investment return - change in unrealized gains and losses on other-than-trading securities	5,889,441	-	-	-	-	-	5,889,441
Change in fair value of interest rate swap agreement	(3,418,248)	-	-	-	-	-	(3,418,248)
Amortization of 2005 interest rate swap agreement	195,530	-	-	-	-	-	195,530
Net gain arising during the period related to defined-benefit plans	7,983,766	-	-	-	-	-	7,983,766
Distributions	-	(275,821)	(4,002,172)	-	-	2,503,270	(1,774,723)
Other	-	-	-	-	-	333,789	333,789
Increase (decrease) in unrestricted net assets	14,867,646	32,455	134,820	(15,572,816)	368,556	584,099	414,760
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	2,844,572	-	-	-	-	-	2,844,572
Net assets released from restriction	(423,628)	-	-	-	-	-	(423,628)
Increase in temporarily restricted net assets	2,420,944	-	-	-	-	-	2,420,944
Change in Net Assets	17,288,590	32,455	134,820	(15,572,816)	368,556	584,099	2,835,704
Net Assets, Beginning of Year	384,164,803	210,007	4,833,531	(4,738,006)	154,492	(5,199,301)	379,425,526
Net Assets, End of Year	\$ 401,453,393	\$ 242,462	\$ 4,968,351	\$ (20,310,822)	\$ 523,048	\$ (4,615,202)	\$ 382,261,230